January 29, 2004

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Docket No. R-1167 (Truth in Lending)
Docket No. R-1168 (Equal Credit Opportunity)
Docket No. R-1170 (Consumer Leasing)

Dear Ms. Johnson:

BB&T Corporation appreciates the opportunity to comment to the Board of Governors of the Federal Reserve System on the proposed revisions to Regulation Z, B, and M.

BB&T Corporation is a financial bank holding company with numerous banks and non-bank subsidiaries. Our comments, both in support of and in opposition to the proposed changes, as well as information about Debt Cancellation Agreements from a lending perspective, are listed below:

A. <u>Proposal to take the new "clear and conspicuous" standard from Regulation P (for privacy notices) and use for other consumer disclosure rules including those required by Regulations Z, B, and M.</u>

While we fully support the need for providing clear and conspicuous disclosures to consumers, we <u>strongly</u> <u>disagree</u> with the proposal to adopt the Regulation P standard for all regulations just to create consistency. We feel that Regulation P is different in the fact that privacy notices are usually provided in <u>one</u> format and require little change. Other regulations, however, especially Regulation Z, B, etc. require many different types of disclosures with unique requirements that apply in many situations. Regulation P currently lists illustrations of what it means to be clear and conspicuous. Some examples are short explanatory sentences, bullets, everyday words, etc. and avoid legal and highly technical business terminology. This could be difficult for loan documents as it is often necessary to have longer sentences in order to communicate technical information. Regulation Z or Regulation M open-end credit disclosures are now integrated with contract terms; therefore, it would be even more confusing for a consumer to know why some sentences are short or use everyday words and the next sentence is one of contract terms.

We feel the proposal does not make it clear how financial institutions should apply the examples to different types of disclosures. In addition, expanding disclosures to a recommended 12-point type such as those that are now required for credit cards would require banks to have to revise many, many other documents which would be very costly. Having to provide wide margins and ample line spacing or perhaps bullets could, in some disclosures, produce significantly longer documents, which would be more costly for banks and harder to read for the consumer. Consumers will be less inclined to review longer or more documents. This change could also require some related disclosures to end up segregated.

The proposal, if adopted, would also create a huge potential for litigation. Even though the litigation could be perceived as frivolous in many cases, it will still create unnecessary expense for the financial industry. Regulation P is different from the other regulations as there is no civil liability for violations. If, however, the requirement for a subjective determination of "reasonably understandable" becomes law, it will also give examiners the right to make subjective determinations under the new standard. All of this will result in increased compliance costs and a burden to the financial industry. Therefore, we strongly urge you not to adopt this proposal.

B. Section by Section answers to specific questions addressed by the Federal Reserve to expand the understanding of "Debt Cancellation Agreements" and "Debt Suspension Agreements."

(1.) What are the similarities and differences among credit insurance, debt cancellation coverage, and debt suspension coverage, in the case of both closed-end and open-end credit for our bank?

BB&T does not currently offer any debt cancellation products. However, we do have plans to offer this product in the near future on our closed-end and open-end retail loans in all the states where we do business. Our proposed product will be a Job Loss Debt Cancellation product similar to Credit Accident & Health Insurance where this product will make the borrower's monthly loan or line payment should they lose their job due to no fault of their own (layoffs, company closings, etc.).

The main difference between this type of debt cancellation product and Involuntary Unemployment Insurance is the fact that the same rate can be charged in each state and the same addendum can be used in each state. Also, since our new product will be a bank product and not an insurance product, no license will be required to sell it.

BB&T does not have any plans to offer debt suspension products nor will we offer coverage for "life-cycle" events such as marriage, divorce, etc. so our comments are based only for debt cancellation agreements.

A type of debt cancellation product (GAP) is sold by our car dealers on our indirect loans but it is not sold through the bank. These fees are disclosed on the contract in accordance with Regulation Z, Section 226.4(d)(3).

(2) With what types of closed-end and open-end credit are debt cancellation and debt suspension products sold? Do we typically package multiple types of coverage (e.g., disability and divorce), or sell them separately? Do we typically sell the products at, or after, consummation (for closed-end credit) or account opening (for open-end credit plans)?

BB&T plans to offer the new debt cancellation product on both closed-end retail loans and open-end retail lines of credit. Our product is a stand-alone product that can be offered by itself or it can be sold with credit life insurance on retail loans and lines or with Credit Life and Accident & Health on retail loans. These products will be available at loan and line closing as well as after closing.

(3.) What disclosures are made with the sale of a product or upon conversion from one product to another, whether required by TILA or other laws? How are monthly or other periodic fees disclosed to consumers?

This product requires both short and long form disclosures and a separate contract or amendment to our retail note or line agreement. The short form disclosures are spelled out in a brochure that will be given to the borrower the moment a lender begins discussing this product with the borrower. The long form disclosures will be given to the client prior to the amendment contract language and the client must sign the long form disclosure. Monthly fees are disclosed on the contract addendum and the long form disclosure of which the borrower signs for the coverage.

(4.) Under Regulation Z, fees for credit protection programs written in connection with a credit transaction are finance charges but some fees may be excluded from the disclosed finance charge if required disclosures are made and the consumer affirmatively elects the optional coverage in writing. See §§ 226.4 (b)(7) and (10), 4(d)(1) and (3). Is there a need for guidance concerning the applicability of those provisions to certain types of coverage now available? Are the required disclosures adequate for all type of products subject to § 4(d)(1) or 4(d)(3)?

Overall, we believe the current disclosures are adequate for the types of coverage that BB&T will provide our clients in the near future. BB&T's clients pay their credit insurance premiums in arrears because we use the daily accrual premium accrual method. With this method, the insurance premiums are not financed and are, therefore, not part of the finance

charge on the loan. The debt cancellation product that BB&T plans to offer will work the exact same way. The disclosure the borrower receives will be clear and understandable, and the borrowers will be required to sign for the coverage the same as they do for credit life insurance today.

However, Section 226.4(d)(3) of Regulation Z currently provides that fees paid in connection with a debt cancellation agreement may be excluded from the disclosed finance charge if the required disclosures are made and the borrower elects the optional coverage. It does not address debt suspension agreements. This section might need to be modified to allow for the exclusion of debt suspension agreements as well.

(5.) ***Under TILA, a credit card issuer must notify a consumer before changing the consumer's credit insurance provider. See 15 U.S.C. 1637(g);12 CFR § 226.9(f). Card issuers that intend to change credit insurance providers need only notify consumers that they may opt out of the new coverage. Should the Board interpret or amend § 226.9(f) to address conversions from credit insurance to debt cancellation or debt suspension agreements? If so, is there a need to address conversions other than for credit card accounts?***

Yes. We believe it would be useful for Regulation Z to impose a comparable disclosure requirement for conversions from credit insurance to a debt cancellation agreement. BB&T will soon be converting to a debt cancellation program on credit cards. When this program goes into effect, any product for any bank we purchase and convert in the future that has some type of regular credit insurance program on their cards will go away at conversion. We would recommend that the Board allow banks to convert that type of insurance to our newly debt cancellation program with proper notification and disclosures. Otherwise, we would have to basically do a termination of their current coverage and allow them to re-enroll affirmatively in our new debt cancellation program or be required to run two separate systems. It would be helpful if the OCC and the Board were consistent in their approach to conversion requirements as each has a regulation addressing debt cancellation contract disclosures.

In addition, we feel that guidance is needed on conversions other than those of credit card accounts. In the future, BB&T will be changing to a debt cancellation product on other open-end accounts such as home equity lines and our overdraft line of credit; therefore, this issue needs to be addressed as we will need guidance when we are involved in merger accounts and/or converting internal accounts from credit insurance to a debt cancellation product.

Summary

BB&T applauds the Federal Reserve's efforts to require financial institutions to provide consumers with clear and conspicuous disclosures; however, we do not believe the benefit in this case outweighs the burden of costs to the financial industry. The proposed amendments would require a review of every disclosure required by the regulations. Banks will then have to bear the cost of redrafting and reproducing many, if not all, disclosures. The majority of our bank's retail and/or mortgage forms would require a re-examination and possible changes, which would cost a bank the size of BB&T millions of dollars (possibly billions if we include our affiliates) in updating forms, procedures, software systems, cost of postage, as well as training thousands of lenders and other personnel in the difference. Large banks would need at least a one or two-year period before all of this could be accomplished. In addition, the cost of litigating, even if the financial institution wins, would be exorbitant. We feel this is entirely unnecessary, especially since there has been no evidence of any major problem that we are aware of with the clear and conspicuous standard rules for Regulation Z, B, and M. Until the Board can identify examples or explanations where disclosures are really that confusing or unclear, we feel that these proposed amendments are not justified at this time. Again, we strongly urge the Board to withdraw the proposal.

In the event you have additional questions or comments, please do not hesitate to contact me at 252-246-4416.

Sincerely,

Janie B. Johnson
Senior Vice President and Senior
Corporate Compliance Officer, CRCM